

**The Internal Revenue Service Has
Improved Controls Over the Use of
Interagency Agreements**

June 1999

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INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 15, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: David C. Williams
Inspector General

David C. Williams

SUBJECT: Final Audit Report – The Internal Revenue Service Has
Improved Controls Over the Use of Interagency
Agreements

This report presents the results of our review of the Internal Revenue Service's (IRS) use of interagency agreements. In summary, we found that the IRS has significantly improved the controls over the use of interagency agreements. However, additional emphasis is needed to fully address the previously reported concerns over the payment process.

To improve controls over the payment process for interagency agreements, we recommend that the Assistant Commissioner (Procurement) provide additional guidance and training to clarify responsibilities in the payment process.

The Assistant Commissioner (Procurement) concurred with the finding and recommendation in the report and has agreed to take corrective action. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please call me at (202) 622-6500 if you have any questions, or your staff may contact Pamela J. Gardiner, Deputy Inspector General for Audit, at (202) 622-6510.

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The Internal Revenue Service Has Improved Controls Over the Use of Interagency Agreements

Executive Summary

The Internal Revenue Service (IRS) has significantly improved the controls over the use of interagency agreements. Specifically, Contracting Officer's Technical Representatives (COTRs) have been established in the IRS program offices to administer interagency agreements, and additional guidance has been provided by IRS Procurement to the program offices to assist in administering interagency agreements. IRS Procurement has centralized the requisitioning process to ensure all interagency agreements are consolidated in one listing. Additionally, most Contracting Officers (COs) are documenting the cost reasonableness and rationale for selection of an interagency agreement versus other contracting vehicles.

Results

Although improvements have been made within the program area, additional emphasis is needed to fully address previously reported concerns over the payment process.

Additional Emphasis Is Needed to Improve Controls over the Payment Process for Interagency Agreements

While IRS program offices have made some improvement in the billing process, continued emphasis is needed to ensure that billing documents are properly received and government resources are adequately protected. We found that 3 of 22 COTRs still did not receive and/or review billing documentation for accuracy. Also, only 8 of 22 COTRs signed the certification forms acknowledging receipt and acceptance of the goods and services.

There is some confusion among the COTRs and COs regarding how payments are made for the interagency agreements. Some of the COs and COTRs did not understand the different payment methods or the overall payment process for interagency agreements. Without a clear understanding of the payment process, the COs cannot ensure that the COTRs are following the correct payment process. Furthermore, because the COTRs are not properly verifying expenses and acknowledging the receipt and acceptance of goods, the IRS has no assurance that funds have been properly expended.

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Summary of Recommendation

Additional guidance and/or training should be provided to clarify responsibilities in the payment process.

Management's Response: The Assistant Commissioner (Procurement) agreed with the facts cited in the report and is providing additional guidance on the payment process for interagency agreements. Management's comments are included in the body of the report where appropriate and the complete text appears as Appendix IV.

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Objective and Scope

The overall objective of this review was to determine whether corrective actions taken on a prior Audit report have improved the use of interagency agreements and controls within the Program.

The overall objective of this review was to determine whether corrective actions taken on a prior Audit report¹ have improved the use of interagency agreements and the related controls within the Program. The audit work for this follow-up review was performed during the period September 1998 to December 1998 in the Internal Revenue Service's (IRS) National Office. The review was conducted in accordance with *Government Auditing Standards*.

Details of our audit objective, scope and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

An interagency agreement is a written agreement entered into between two federal government agencies. The IRS began using interagency agreements as an alternate method to procure goods and services in Fiscal Year (FY) 1986. The agreements allow the IRS to obtain goods and services from contractors who have existing contracts with other agencies (the servicing agency). The IRS is charged a surcharge (servicing fee) to cover the administrative costs incurred by the servicing agency. The IRS benefits from using interagency agreements since the time and expense involved in awarding a contract are negated.

The authority to execute interagency agreements is held by the Assistant Commissioner (Procurement) or his designee. According to Procurement's records, the IRS executed:

¹ *Review of the Internal Revenue Service's Use of Interagency Agreements, Ref. 070504*

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- ◆ Ninety-four interagency agreements with an estimated value of \$77,323,087 in FY 1997.
- ◆ Eighty-nine interagency agreements with an estimated value of \$89,041,807 in FY 1998.

Payments for goods and services obtained through an interagency agreement can be made via the On-line Payment and Collection (OPAC) system. The OPAC system electronically transfers funds between the government agencies. In some instances, the servicing agency may request payment from the IRS before commencement of work by the contractor.

A previous Audit report determined that improvements over the IRS' use of interagency agreements were needed.

In November 1996, we reported² that improvements in the IRS' use of interagency agreements were needed to ensure effective use of government resources. Specifically, the report included the following issues:

- ◆ Minimal guidance was provided on the administration of interagency agreements.
- ◆ The universe of the IRS' interagency agreements could not be determined.
- ◆ Cost reasonableness was not determined prior to entering into an interagency agreement.
- ◆ Controls over the interagency agreement payment process were inadequate.

Results

The IRS has taken appropriate actions to address the concerns presented in the November 1996 Audit report. As a result of the corrective actions taken, IRS Procurement has significantly improved the internal controls within the program for processing interagency agreements. Additional guidance was provided to the program offices administering interagency agreements. Procurement issued memoranda and updated policy and

Improvements have been made in the administration of interagency agreements.

² Review of the Internal Revenue Service's Use of Interagency Agreements, Ref. 070504

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procedures to delineate the responsibilities of all parties involved in administering interagency agreements, and to designate that the authority to execute agreements is held by the Assistant Commissioner (Procurement).

Before the guidance was issued, the IRS program managers monitoring the interagency agreements were entering into agreements without going through IRS Procurement. Now, Contracting Officer's Technical Representatives (COTRs) have been established in the program offices to administer interagency agreements and to coordinate with IRS Procurement. Most of the COTRs we interviewed stated they had a copy of the guidance in their files and were following the procedures.

IRS Procurement has consolidated interagency agreements into one listing to better control and monitor the agreements.

IRS Procurement has also taken steps to improve controls over interagency agreements by identifying the universe of agreements. Previously, the universe of interagency agreements was unknown, since not all agreements were processed through IRS Procurement. Presently, all agreements are processed through IRS Procurement where they are consolidated into one listing at the end of the fiscal year. This additional control allows interagency agreements to be identified and monitored.

Furthermore, IRS Procurement recently established procedures for controlling interagency agreements in the Request Tracking System/Integrated Procurement System (RTS/IPS). All procurement actions will be processed through the RTS/IPS system. The requesting office will initiate the interagency agreement on the tracking system and IRS Procurement will create a record of the agreement and record the obligation. This will further enable the universe of interagency agreements to be identified.

Finally, there has been improvement in determining cost reasonableness and rationale for selecting an interagency agreement as the contracting vehicle. Eighteen of 23 interagency agreements reviewed contained a rationale for selection in the file. This is an improvement from the previous review where only 1 of 15 agreements

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contained a rationale for why the interagency agreement was the most economical contracting vehicle. Also, Contracting Officers (COs) are verifying the servicing fees associated with the agreements and have even negotiated a lower fee in some instances. Previously, the servicing fees were accepted without further negotiation.

While IRS Procurement's actions have improved the internal control environment, we believe additional emphasis is needed to improve the controls over the payment process. Specifically, we noted inconsistencies in receipt and acceptance of billing documents and a lack of understanding of the payment process.

Additional Emphasis Is Needed to Improve Controls Over the Payment Process for Interagency Agreements

Further improvements would enhance the administration of interagency agreements.

Inconsistencies still exist in the receipt and acceptance of billing documents. Also, there is an overall lack of understanding of the payment process for interagency agreements.

We previously reported that the costs incurred on interagency agreements were not adequately monitored, and receipt and acceptance certifications were rarely completed. Procurement agreed to issue a memorandum to all Chief Officers requiring program offices to verify invoices and advance transfer of funds using the OPAC system. Also, the program offices agreed to nominate an interagency agreement project monitor.

Not all COTRs reviewed billing documentation for accuracy and/or signed certification forms which acknowledge receipt and acceptance of goods and services.

Although COTRs were established to monitor the agreements, 3 of 22 COTRs did not receive and/or review billing documentation for accuracy. Furthermore, only 8 of 22 COTRs signed the OPAC certification forms acknowledging receipt and acceptance of the goods and services.

The servicing agency sends billing information to the IRS Accounting Office in Beckley, West Virginia, once the work is performed. The servicing agency is paid via

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Several COs and COTRs did not know when the payment was made to the servicing agency.

the OPAC system. The Accounting Office then forwards the billing information and the OPAC certification form to the COTR for verification. The COTR signs the certification form to acknowledge the receipt and acceptance of the goods and services and certifies the OPAC amounts.

As previously mentioned, the servicing agency may request payment before the commencement of work by the contractor. In 21 of 23 instances, the interagency agreements were either paid in advance for the full amount or reimbursed for work completed via the OPAC system, before the certification forms were signed. The Federal Acquisitions Regulations allow advance payments for interagency agreements. This, in conjunction with the use of the OPAC system, is the generally accepted payment method for interagency agreements throughout the government. However, our discussions with COs and COTRs indicated that 4 of 7 COs and 12 of 22 COTRs did not know they were performing an after-the-fact verification, since the servicing agency had been paid before the COTRs signed the OPAC certification form. Several COs and COTRs advised us that they did not fully understand the payment methods or payment process for interagency agreements.

Without a clear understanding of the payment process, the COs cannot ensure that interagency agreements are adequately monitored. Also, the COs and COTRs cannot ensure appropriate procedures are followed. Further, without the verification of billing documentation and acknowledgement of receipt and acceptance by the COTR, the IRS has no assurance that funds are properly expended.

Recommendation

1. The Assistant Commissioner (Procurement) should provide additional guidance and/or training to clarify the CO and COTR responsibilities in the payment process.

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Management's Response: The Assistant Commissioner (Procurement) plans to incorporate additional information regarding the COTR's responsibilities in the payment process for interagency agreements into the COTR training courses offered by the Treasury Acquisition Institute. Also, guidance on the interagency agreement payment process will be included on the Procurement Intranet web site. Further, a revised Policy and Procedures Memorandum was issued that contains specific instructions for COs and COTRs, for interagency agreement funding, billing, and payment.

Conclusion

The IRS has significantly improved controls over the use of interagency agreements. Although improvements have been made within the program area, additional emphasis is needed to fully address previously reported concerns regarding the payment process.

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Appendix I

Detailed Objective, Scope and Methodology

The overall objective of this audit was to follow up on a November 1996 Audit report³ to determine if corrective actions taken have improved the use of interagency agreements and controls within the Program. Specifically, we:

- I. Determined whether the Internal Revenue Service (IRS) effectively implemented corrective actions identified in the previous Audit report.
 - A. Reviewed the status of the corrective actions on the Inventory, Tracking and Closure system, and prepared a spreadsheet listing the findings, recommendations, corrective actions and status of corrective actions.
 - B. Compared the actions taken to the proposed corrective actions.
 - C. Reviewed available documentation to support the implementation of corrective actions.
- II. Determined whether corrective actions effectively improved the use and administration of interagency agreements.
 - A. Determined whether Procurement developed IRS procedures for entering into, and administering, interagency agreements. Ensured the procedures:
 - 1. Delineated the responsibilities of all parties involved in interagency agreements.
 - 2. Established the Assistant Commissioner (Procurement) area as the office responsible for oversight and administration of interagency agreements.
 - 3. Incorporated thresholds for quality review by Procurement and General Legal Services.
 - B. Determined whether a memorandum from the Chief Financial Officer and Chief Management and Administration was distributed to the appropriate executives (Deputy Commissioner, Chief Officers, Regional Commissioners, and Chief Inspector) that communicated their responsibilities in regard to interagency agreements.

³ *Review of the Internal Revenue Service's Use of Interagency Agreements, Ref. 070504*

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- C. Determined whether all interagency agreements were processed through Procurement and whether a comprehensive listing of the agreements is maintained.
- D. Selected a judgmental sample of 23 interagency agreements from the 89 active agreements for Fiscal Year 1998, to determine how effectively Procurement was monitoring and providing oversight for the agreements.
 - 1. Interviewed contracting personnel and program managers to identify the payment process.
 - 2. Verified invoices to ensure that charges were valid and proper documentation was maintained.
 - 3. Determined whether certification forms indicated receipt and acceptance of products/services before payments were issued.
 - 4. Determined whether interagency agreements were identifiable on the Automated Financial System.
 - 5. Determined whether Contracting Officers were obtaining and analyzing documentation supporting costs from servicing agencies before entering into interagency agreements.
 - 6. Determined if program offices performed feasibility studies on whether to use interagency agreements or another contract vehicle.

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Appendix II

Major Contributors to This Report

Michael Phillips, Acting Director, Office of Audit Projects

Nancy LaManna, Audit Manager

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Appendix III

Report Distribution List

Chief, Management and Finance M

Assistant Commissioner (Procurement) M:P

Audit Liaison (Attn: Thomas Harner) M:P

National Director for Legislative Affairs CL:LA

Office of Management Controls M:CFO:A:M

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Appendix IV

Management's Response to the Draft Report

I



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

May 19, 1999

**MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION**

FROM: Charles O. Rossotti 
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report — The Internal Revenue Service Has
Improved Controls Over the Use of Interagency Agreements

In response to the recommendation in the above report, see attachment for proposed corrective actions. Your staff may contact the Assistant Commissioner (Procurement), Greg Rothwell, at (202) 622-8480, or his Executive Assistant, Tom Harner, at (202) 622-8867 for additional information.

Attachment

The Internal Revenue Service Has Improved Controls Over the Use of Interagency Agreements

Finding:

Additional emphasis is needed to improve controls over the payment process for interagency agreements.

Recommendation:

The Assistant Commissioner (Procurement) should provide additional guidance and/or training to clarify the Contracting Officer (CO)/Contracting Officer's Technical Representative (COTR) responsibilities in the payment process.

Assessment of Cause:

The reported inconsistencies in the treatment of interagency agreement payments were due to a number of factors. The On-Line Payment and Collection (OPAC) system is the generally accepted payment method for interagency agreements used throughout the federal government. Invoices are rarely used to bill the requesting agency. In addition, the Federal Acquisition Regulation (FAR) allows advance payments for interagency agreements. Prior to FY 1999, interagency agreements were processed manually, rather than through the automated Request Tracking System (RTS)/Integrated Procurement System (IPS). As a result, most receipt and acceptance activities — including the certification of invoices and OPAC transactions — were completed manually as well, contributing to delays. Furthermore, OPAC transactions require the review of documentation by COTR's "after the fact," which differs significantly from traditional receipt and acceptance procedures.

Corrective Actions:

1. Additional information regarding the COTR's responsibilities in the payment process for interagency agreements will be incorporated into the COTR training courses offered by the Treasury Acquisition Institute.
2. Guidance on the interagency agreement payment process will be included on the Procurement Intranet web site.
3. A revised Policy and Procedures Memorandum No. 17.5, *Interagency Agreements*, was issued on September 11, 1998, with an effective date of October 1, 1998. It contains specific instructions for CO's and COTR's for interagency agreement funding, billing, and payment.

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Implementation Dates:

1. Proposed: April 1, 2000.
2. Proposed: October 1, 1999.
3. Completed: September 11, 1998.

Responsible Official:

1. Assistant Commissioner (Procurement).
2. Assistant Commissioner (Procurement).
3. Assistant Commissioner (Procurement).

Corrective Actions Monitoring Plan:

Results Indicators: In order to determine whether established procedures for processing interagency agreement payments are being followed, a sample of interagency agreement files will be reviewed by the Office of Procurement Policy on a semi-annual basis. The results of each review will be reported to the Assistant Commissioner (Procurement).

Validation Process: Interagency agreement files will be reviewed on a sample basis to determine whether contracting officers and contracting officer's technical representatives (COTR's) are complying with the requirements established for interagency agreements in Policy and Procedures No. 17.5.